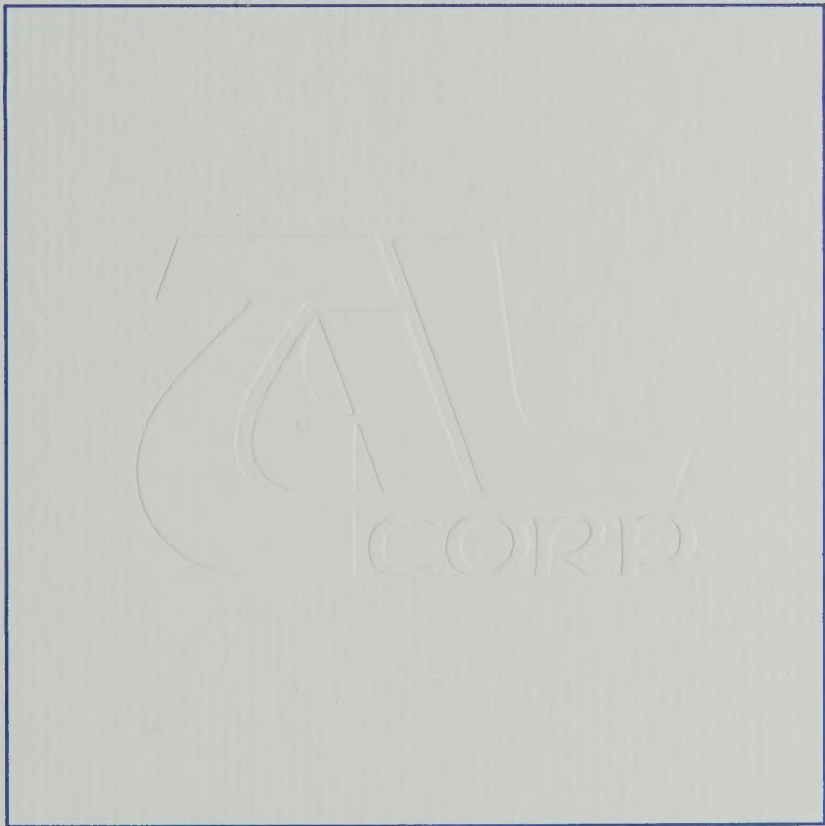


TALcorp Associates Limited 1979 Annual Report

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HEAD OFFICE

Suite 2200, Commercial Union Tower
P.O. Box 351
Toronto-Dominion Centre
Toronto, Ontario M5K 1K7

AUDITORS

Clarkson Gordon

LEGAL COUNSEL

Tory, Tory, DesLauriers & Binnington

BANKERS

The Toronto-Dominion Bank
Bank of Montreal

EXCHANGE LISTING

The Toronto Stock Exchange

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company, Toronto,
Montreal, Winnipeg, Regina, Vancouver

Annual Meeting

York Room, Main Mezzanine
Royal York Hotel, Toronto
Friday, May 2, 1980
11:30 a.m.



Board of Directors/Officers

RICHARD W. BRISSENDEN

Vice-President and Treasurer
TALcorp Associates Limited

ROBERT W. KORTHALS

Executive Vice-President and
Chief General Manager
The Toronto-Dominion Bank

GEORGE H. MONTAGUE

Vice-President and Secretary
TALcorp Associates Limited

J. GARNET PINK

Partner
Tory, Tory, DesLauriers & Binnington

ROBERT SMITH

Chairman and President
TALcorp Associates Limited

JOHN A. TORY

President
The Thomson Corporation Limited

ROBERT SMITH

Chairman and President

GEORGE H. MONTAGUE

Vice-President and Secretary

RICHARD W. BRISSENDEN

Vice-President and Treasurer

HENRI J. SPOOK

Comptroller

MARILYN ROBERTS

Assistant Secretary



1979 Highlights

FROM THE FINANCIAL STATEMENTS

	1979	1978
Net earnings	\$ 2,441,000	\$ 2,372,000
Dividends	\$ 713,000	\$ 583,000
Shareholders' equity	\$25,993,000	\$24,254,000

PER SHARE COMPARISONS

Earnings (loss) before gain on disposal of investments and extraordinary gain	\$ 1.10	\$ (.10)
Net gain on disposal of investments	.36	1.77
Extraordinary gain	.34	.14
Net earnings for the year	\$ 1.80	\$ 1.81
Dividends	\$.52 ^{1/2}	\$.45
Shareholders' equity	\$19.09	\$17.89



President's Report to the Shareholders

The Year in Review

Following the sale of our interest in Alliance Building Corporation Limited in late 1978, your Company became highly liquid with substantial cash and near cash assets. Although the cash assets were reinvested in 1979, the Company has a very healthy balance sheet with the capability of making further significant investments.

Reichhold Limited

In September 1979, your Company acquired 20% of the equity (on a fully diluted basis) of Reichhold Limited for \$12 million. The interest was subsequently increased to 25% by the purchase of further shares at a cost of approximately \$3 million. TALcorp is now the largest shareholder of Reichhold.

Reichhold is engaged in the manufacture, supply and service of a large number of products to diverse industries and markets in Canada and the United States. Its main areas of operation are the manufacture and sale of synthetic resins and chemicals; the distribution of agricultural chemicals; the manufacture and sale of printing inks and distribution of printing machinery, equipment and supplies; and the provision of chemicals and services to the oil and gas industry.

Reichhold had sales in 1979 of \$287 million and earnings of \$6,378,000 and its long range prospects appear to be excellent.

Barrymore Carpet Inc.

Barrymore (in which we have a 50% interest) achieved a sales volume of \$25.3 million and net income of \$802,000 in 1979 compared with \$21.7 million and \$1,085,000 respectively in 1978. The performance of Barrymore is considered very creditable in view of the generally poor climate for the carpet industry in 1979.

Oil and Gas Investments

In 1979 we investigated and ultimately committed approximately \$5 million in three separate oil and gas exploration ventures.

In the case of one of the three ventures, in Lambton County in South Western Ontario, TALcorp is the manager of the project and holds a 25% interest. The Lambton County venture included the purchase of four gas/oil pools (production from which is expected to return the invested capital to the participants plus a satisfactory profit), together with exploration rights over 40,000 acres. Initial geological reports have now been received and a number of promising drilling targets have been pin-pointed. A drilling programme will commence in May or June of this year and we anticipate drilling up to 6 exploration wells during 1980.

The other two investments have been in drilling funds organized by Renaissance Resources Ltd. and Camel Oil and Gas Inc. TALcorp has also taken an equity interest in Renaissance. The Renaissance funds will be expended mainly in Alberta and British Columbia with participation in 75 wells projected for 1980. The Camel programme is to be centered in the Southern United States, and anticipates being involved in the drilling of 10 wells in 1980. Both programmes are now

underway and some positive results have been achieved, although it is too early to quantify the value of these results.

Stock Market Activities

We experienced another very successful year in our stock market activities.

Capital appreciation (based on average carrying values) on our quoted short-term and investment portfolios in 1979 was 48% compared with an increase in The Toronto Stock Exchange Index of 38% and the Dow Jones Index of 4.2%. This follows a very good performance in 1978 when our portfolios showed a 50% increase compared with 5% for The Toronto Stock Exchange Index and a decrease of 18% in the Dow Jones Index. The market value of the quoted portfolios amounted to \$5,680,000 at December 31, 1979.

In 1979 we purchased a 23% interest in Tolux S.A. a Luxembourg registered closed-end fund. As explained in last year's annual report, the policy of Tolux was to invest in "under-valued" listed U.S. securities. During the course of the year our partners in Tolux decided that they would prefer its assets to be invested in South Africa and we therefore sold our interest at a satisfactory profit. We have since made a number of direct investments in what we consider to be "under-valued" U.S. securities.

Dividends

In 1979 dividends were increased from 45¢ to 52½¢ per share, the eighth successive year of dividend increases. In February 1980 your directors again increased the half-yearly dividend from twenty-seven and one-half cents (27½¢) to thirty cents (30¢) per share. In future, dividends will be paid in quarterly instalments commencing in July 1980.

1979 Financial Performance

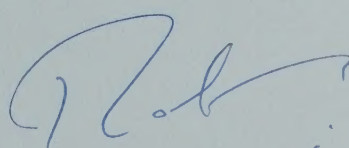
The table below sets out the key indicators of the Company's financial position:

(in thousands of dollars)	1979	1978
Financial income . . .	\$ 2,674	\$ 1,265
Equity earnings (loss)	509	(95)
	<u>\$ 3,183</u>	<u>\$ 1,170</u>
Earnings (loss) before investment gains and extraordinary gain	\$ 1,489	\$ (143)
Per Share	1.10	(.10)
Net earnings for the year	\$ 2,441	\$2,372
Per Share	1.80	1.81
Shareholders' equity at book value	\$25,993	\$24,254
Per Share	19.09	17.89

Book value per share of \$19.09 compares with management's internal valuation of approximately \$21.00 per share.

Future Prospects

Your Company presently has total investments of \$27.3 million with little indebtedness and we are therefore in an excellent position to take advantage of new investment opportunities.



ROBERT SMITH
Chairman and President



Nine Year Financial Review

(in thousands of dollars)	1979	1978	1977	1976	1975	1974	1973	1972	1971
	(note 1)	(notes 1 and 4)	(note 1)	(note 1)	(note 1)				
Earnings (loss) before investment and extraordinary gains	\$ 1,489	\$ (143)	\$ (1,934)	\$ 794	\$ 1,561	\$ 2,943	\$ 2,412	\$ 1,354	\$ 107
Per share	1.10	(.10)	(1.49)	.42	.67	.79	.65	.41	.11
Net gain (loss) on disposal of investments (note 3)	\$ 489	\$ 2,326	\$ (378)	\$ 3,718	\$ 6,348	\$ 1,205	\$ 1,111	\$ 3,730	\$ 26
Per share	.36	1.77	(.29)	1.98	2.72	.32	.30	1.12	.03
Extraordinary gain (note 3)	\$ 462	\$ 188							
Per share	.34	.14							
Net earnings (loss) for the year	\$ 2,441	\$ 2,372	\$ (2,312)	\$ 4,512	\$ 7,908	\$ 4,150	\$ 3,523	5,084	\$ 133
Per share	1.80	1.81	(1.78)	2.40	3.39	1.11	.95	1.53	.14
Cash dividends paid	\$ 713	\$ 583	\$ 551	\$ 754	\$ 933	\$ 932	\$ 559	\$ 186	
Per share	.52 1/2	.45	.42 1/2	.40	.35	.25	.15	.05	
Shareholders' equity (note 2) at book value	\$25,993	\$24,254	\$21,869	\$24,729	\$28,083	\$33,541	\$30,561	\$26,583	\$ 4,612
Per share	19.09	17.89	16.88	19.09	15.03	9.00	8.20	7.13	2.72
Common shares (adjusted for sub-division and conversions):									
Weighted average	1,358	1,311	1,295	1,876	2,333	3,728	3,728	3,332	941
Outstanding at end of year (note 2)	1,361	1,355	1,296	1,295	1,868	3,728	3,728	3,728	1,693
Price range on TSE:									
High	\$ 13.25	\$ 11.25	\$ 12.63	\$ 11.75	\$ 9.75	\$ 8.25	\$ 19.50	\$ 18.75	\$ 7.00
Low	\$ 9.63	\$ 8.00	\$ 8.00	\$ 7.00	\$ 4.30	\$ 3.40	\$ 7.00	\$ 6.13	\$ 1.45

NOTES:

1. Per share figures for 1975, 1976 and 1977 reflect the deduction of 1,860,000 shares of the Company held by its subsidiary, Toronto and London Investment Company Ltd. These shares were cancelled when this subsidiary was amalgamated with the Company in 1978.
2. 1976 based on equity subsequent to purchase and cancellation of 604,745 shares in January 1977.
3. Extraordinary gains of a subsidiary company for 1974, 1975, 1976 and 1977 have been transferred to gain (loss) on disposal to conform to the 1978 method of presentation.
4. Certain items have been reclassified to conform to the 1979 presentation.



Auditors' Report

To the Shareholders of TALcorp Associates Limited:

We have examined the consolidated balance sheet of TALcorp Associates Limited as at December 31, 1979 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in investments for the year then ended. For TALcorp Associates Limited, its consolidated subsidiaries, and for those other companies of which we are the auditors and which are accounted for by the equity method in these consolidated financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such

tests and other procedures as we considered necessary in the circumstances. For other companies accounted for by the equity method we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its investments for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada CLARKSON GORDON
March 3, 1980 Chartered Accountants



Consolidated Balance Sheet

DECEMBER 31, 1979
(with comparative figures at December 31, 1978)

	<u>1979</u>	<u>1978</u>
ASSETS		
Investments (note 2):		
Associated companies —		
Quoted shares, at equity	\$14,671,355	
Unquoted shares, at equity	1,785,978	\$ 1,485,978
Notes receivable, at cost	115,659	115,659
	<u>16,572,992</u>	<u>1,601,637</u>
 Participation in oil and gas exploration and development joint ventures, at equity	 1,225,000	
 Portfolio —		
Quoted securities, at the lower of cost and market	1,188,152	2,474,012
Unquoted securities, at the lower of cost and estimated realizable value.	5,623,964	5,669,264
	<u>6,812,116</u>	<u>8,143,276</u>
 Real estate (note 5) —		
Revenue producing property	2,495,245	2,507,629
Property held for future development.	154,327	201,697
	<u>2,649,572</u>	<u>2,709,326</u>
 Total investments	 27,259,680	 12,454,239
 Short-term investments, at the lower of cost and market (note 2(d))	 2,187,580	2,018,225
Cash and short-term deposits		8,196,060
Notes, mortgages and accounts receivable (note 6).	2,592,658	3,912,545
Other	181,501	182,032
	<u>\$32,221,419</u>	<u>\$26,763,101</u>

(See accompanying notes to consolidated financial statements)

	<u>1979</u>	<u>1978</u>
LIABILITIES		
Bank indebtedness	\$ 2,903,753	
Accounts payable and accrued charges.	1,504,566	\$ 549,524
Income taxes payable	18,006	61,298
Bonds and mortgages payable (note 7)	1,802,550	1,898,604
Total Liabilities	<u>6,228,875</u>	<u>2,509,426</u>
SHAREHOLDERS' EQUITY		
Share capital (note 3)	17,583,168	17,571,602
Retained earnings	8,409,376	6,682,073
	<u>25,992,544</u>	<u>24,253,675</u>
	\$32,221,419	\$26,763,101



Consolidated Statement of Earnings

YEAR ENDED DECEMBER 31, 1979

(with comparative figures for 1978)

	<u>1979</u>	<u>1978</u>
Financial income including interest, fees, net rental revenues, gain on sale of short-term investments and dividends (note 2(e))	\$2,673,871	\$1,265,211
Equity in net earnings (loss) , before extraordinary gain, of associated and unconsolidated subsidiary companies involved in:		
Industrial activities	509,000	292,000
Real estate activities		(387,000)
	<u>509,000</u>	<u>(95,000)</u>
	3,182,871	1,170,211
Expenses (note 8)	<u>1,693,761</u>	<u>1,312,898</u>
Earnings (loss) before net gain on disposal of investments and extraordinary gain	1,489,110	(142,687)
Net gain on disposal of investments (note 2(f)).	489,402	2,326,363
Extraordinary gain representing income tax reduction realized on the application of prior years' losses.	<u>462,000</u>	<u>188,000</u>
Net earnings for the year	<u>\$2,440,512</u>	<u>\$2,371,676</u>
Earnings per share		
Earnings (loss) before net gain on disposal of investments and extraordinary gain	\$1.10	\$(.10)
Net gain on disposal of investments	.36	1.77
Extraordinary gain	<u>.34</u>	<u>.14</u>
Total for the year	<u>\$ 1.80</u>	<u>\$ 1.81</u>

(See accompanying notes to consolidated financial statements)

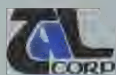


Consolidated Statements of Retained Earnings and Contributed Surplus

YEAR ENDED DECEMBER 31, 1979 (with comparative figures for 1978)

	1979	1978
STATEMENT OF RETAINED EARNINGS		
Balance at beginning of year	\$6,682,073	\$17,721,602
Amount cancelled upon amalgamation with subsidiary company		(2,498,547)
Amount transferred to share capital		(10,329,395)
	<u>6,682,073</u>	<u>4,893,660</u>
Net earnings for the year	<u>2,440,512</u>	<u>2,371,676</u>
	<u>9,122,585</u>	<u>7,265,336</u>
Dividends	<u>(713,209)</u>	<u>(583,263)</u>
Balance at end of year	<u><u>\$8,409,376</u></u>	<u><u>\$ 6,682,073</u></u>
STATEMENT OF CONTRIBUTED SURPLUS		
Balance at beginning of year	\$ —	\$ 4,434,735
Amount cancelled upon amalgamation with subsidiary company	—	(2,565,494)
Amount transferred to share capital	<u>—</u>	<u>(1,869,241)</u>
Balance at end of year	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>

(See accompanying notes to consolidated financial statements)

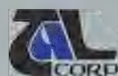


Consolidated Statement of Changes in Investments

YEAR ENDED DECEMBER 31, 1979
(with comparative figures for 1978)

	<u>1979</u>	<u>1978</u>
Source of investment funds		
Earnings (loss) from operations	\$ 1,489,110	\$ (142,687)
Equity in net earnings (loss), before extraordinary gain, of associated and unconsolidated subsidiary companies net of capital gains tax	402,000	(71,000)
	<u>1,087,110</u>	<u>(71,687)</u>
Decrease in cash and short-term deposits	8,196,060	
Proceeds on disposal of investments	4,009,319	10,332,676
Increase in bank indebtedness	2,903,753	
Decrease in notes, mortgages and accounts receivable	1,319,887	
Increase in accounts payable and accrued charges	955,042	
Dividends from associated company	122,220	
Increase in income taxes payable	35,337	
Issuance of share capital	11,566	596,300
Miscellaneous	531	314,732
Increase in mortgages payable		1,446,604
	<u>18,640,825</u>	<u>12,618,625</u>
Deduct:		
Dividends paid	713,209	583,263
Increase in short-term investments	169,355	178,915
Decrease in bonds and mortgages payable	96,054	
Increase in cash and short-term deposits		6,335,672
Decrease in income taxes payable		1,339,552
Increase in notes, mortgages and accounts receivable		755,263
Decrease in accounts payable		128,738
	<u>978,618</u>	<u>9,321,403</u>
Funds used for investments	<u>17,662,207</u>	<u>3,297,222</u>
Investments at beginning of year	12,454,239	16,338,848
Add (deduct):		
Equity in net earnings of associated and unconsolidated subsidiary companies less dividends received	406,780	117,000
Carrying amount of investments disposed of	(3,263,546)	(7,666,036)
Recovery of provision for decline in market value of investment portfolio		367,205
Investments at end of year	<u>\$27,259,680</u>	<u>\$12,454,239</u>

(See accompanying notes to consolidated financial statements)



Notes to Consolidated Financial Statements

DECEMBER 31, 1979

1. BUSINESS OF THE COMPANY AND ACCOUNTING POLICIES

TALcorp Associates Limited is an investment and holding company and its directors have determined at a meeting of directors, and recorded in the minutes of such meeting that the foregoing is the only class of business conducted by it. Its wholly-owned financial subsidiaries conduct a financial and management service business and a short-term investment operation. For financial statement purposes, this group of companies is herein called the "Company". The Company holds or has held interests in a number of long and short-term investments which are described as follows:

Associated companies — companies 50% or less owned which are operated autonomously and in which the Company has significant influence.

Joint ventures — arrangements whereby the Company participates with others in a specific business undertaking and contributes resources to its operations.

Unconsolidated subsidiaries — companies more than 50% owned but which are operated autonomously and whose business operations are not primarily of a financial nature. There were no such companies in 1979.

Portfolio investments — investments in quoted and unquoted equity and debt securities of companies in which the Company exerts no significant influence.

Short-term investments — quoted and unquoted securities purchased with the intention of holding them for the short term.

BASIS OF PRESENTATION of the financial statements of the Company and the above investments is summarized as follows. The accounts of TALcorp Associates Limited are consolidated with its financial subsidiaries only. Investments in associated companies and unconsolidated subsidiaries are accounted for by the equity method whereby the investments are initially recorded at cost and carrying amounts are adjusted to recognize the Company's share of earnings or losses and capital transactions since acquisition and reduced by dividends received. Capital gains taxes are accrued on adjustments to these investments; the carrying amounts of such investments are reduced by the capital gains tax accruals; the provisions with respect to equity earnings or losses are included with income tax expense while capital transactions are reflected net of such provisions. Investments in joint ventures are accounted for by the equity method, whereby the investments are initially recorded at cost and carrying amounts are adjusted to recognize the Company's share of earnings and losses and capital transactions since acquisition and reduced by joint venture earnings received. Provision is made for taxes on the unremitted joint venture earnings.

Quoted portfolio investments and short-term investments are carried at the lower of average cost and market as determined by comparing the aggregate cost of each category with its respective aggregate market value. Market values are based on the last reported sale or closing bid price on security exchanges or over-the-counter markets.

The aggregate market value of quoted investments by category is detailed in the notes to the financial statements. Unquoted portfolio investments are carried at the lower of cost and estimated realizable value.

REAL ESTATE INVESTMENTS are carried at cost less accumulated depreciation. Expenditures for renewals and betterments are capitalized at cost. Profits or losses on sales of real estate are included in the statement of earnings. Maintenance and repairs are charged to expense as incurred.

ACQUISITIONS OF INVESTMENTS are recorded on the purchase basis of accounting. The difference, if any, between the purchase price of an acquisition and the acquired interest in net tangible assets at estimated fair value is amortized to earnings over a reasonable period of time.

EARNINGS PER SHARE are computed on the basis of the weighted average number of shares outstanding in each year.

2. INVESTMENTS

(a) Acquisitions:

During 1979 the Company completed the acquisition of a 24.6% interest on a fully diluted basis in Reichhold Limited for \$14,564,575 cash.

Reichhold Limited is a public company listed on the Toronto and Montreal Stock Exchanges. The company is engaged in the manufacture and sale of synthetic resins, chemicals and printing inks and it distributes machinery, equipment and supplies to the printing and graphic arts industry.

The acquisition has been treated on the purchase basis of accounting and the acquisition equation which includes all dilutive items in existence at the date of acquisition is as follows:

Net assets at estimated fair values (approximates book value)	\$48,159,000
Percentage interest acquired	24.6%
Company's interest in net assets acquired at estimated fair values	11,847,000
Goodwill, representing excess of interest in net assets over purchase consideration of investment	2,717,575
Purchase consideration paid in cash	<u>\$14,564,575</u>

The goodwill is being amortized to earnings by the straight-line method over 20 years.

2. INVESTMENTS (cont.)

(b) Analysis of investment in shares of associated companies:

	1979		1978	
	Approximate Equity Interest	Carrying Amount At Equity	Approximate Equity Interest	Carrying Amount At Equity
	%		%	
Quoted shares:				
Reichhold Limited	24.6	<u>\$14,671,355</u>		
Unquoted shares:				
Barrymore Carpet Inc.	50	<u>\$ 1,785,978</u>	50	<u>\$1,485,978</u>

(c) Participation in oil and gas exploration and development joint ventures.

The Company is participating in two joint ventures in Canada and one joint venture in the United States. Under the terms of the various agreements the Company has advanced \$1,225,000 as its share of the participation in the exploration and development of oil and gas properties. The Company has committed itself to make further advances as follows:

1980	\$2,195,000
1981	870,000

Because the above programmes are still in the early stages, no income was generated during 1979.

(d) Market values of quoted investments:

	December 31, 1979		December 31, 1978	
	Carrying Amount	Market Value	Carrying Amount	Market Value
Associated companies, quoted shares.	\$14,671,355	\$14,423,000		
Quoted portfolio securities	1,188,152	2,591,000	\$2,474,012	\$2,880,000
Short-term investments.	2,187,580	3,089,000	2,018,225	2,321,300

The market values of the Company's investments do not necessarily represent the value of the entire blocks of investment holdings which may be more or less than the value indicated by market quotations.

(e) Analysis of earnings:

	Financial Income	Equity Earnings	Total of Financial Income & Equity Earnings	Disposal of Investments
Interest	\$1,429,361		\$1,429,361	
Net rental (loss)	(27,036)		(27,036)	
Portfolio investments.	338,151		338,151	\$430,909
Associated companies.		\$509,000	509,000	
Other sources	933,395		933,395	58,493
Total.	<u>\$2,673,871</u>	<u>\$509,000</u>	<u>\$3,182,871</u>	<u>\$489,402</u>

2. INVESTMENTS (cont.)

(f) Analysis of net gain on disposal of investments:

	1979	1978
Proceeds on disposal	\$4,009,319	\$10,332,676
Deduct:		
Carrying amount of investments disposed of	3,263,546	7,666,036
Taxes on excess of proceeds over carrying amount	256,371	505,482
Recovery of provision for decline in market value of investment portfolio (including income tax expense of \$202,000).		(165,205)
	<u>3,519,917</u>	<u>8,006,313</u>
Net gain on disposal of investments	<u>\$ 489,402</u>	<u>\$ 2,326,363</u>

3. SHARE CAPITAL

(a) Class A, Class B and Class C shares are interconvertible on a one for one basis. A summary of the Company's issued share capital is as follows:

	1979	1978
1,361,305 (1978: 1,355,404)		
Class A convertible common shares and Class B convertible common shares	<u>\$17,583,168</u>	<u>\$17,571,602</u>

There are no Class C shares outstanding.

(b) The Company has reserved 61,166 Class A shares for its Key Employee Stock Option Plan. Options granted under the Plan may be exercised on a cumulative basis at 20% per annum, commencing one year subsequent to the date of grant, and expire six years subsequent to such date. During the year options to acquire 5,901 of the above shares were exercised for a cash consideration of \$11,566 and 4,400 options were cancelled. Certain options were exercised pursuant to the market growth alternative of the Plan, whereby the employees' entitlement to 13,300 common shares for a cash consideration of \$112,800 was released in exchange for the issuance of 4,621 shares at an aggregate cash consideration of \$46.

Options outstanding at December 31, 1979 are as follows:

Year Granted	Option Price	Outstanding December 31, 1979
1975	\$ 8.00	3,980
1977	9.25	2,000
1979	11.50	7,500
		<u>13,480</u>

Of the outstanding options, 9,980 are held by directors and officers.

4. INDEBTEDNESS TO THE COMPANY

Pursuant to the Company's Senior Executive Share Purchase Plan senior executives of the Company are permitted to purchase from the Company up to 60,000 shares in the capital of the Company at prices to be not less than 90% of the fair market value. If the executive should cease to be an employee and in certain other circumstances, the Company has the right, for stipulated periods, to reacquire such shares, or part of them at a price equal to the original sale price. Under the terms of the plan 58,750 shares have been issued. The Company has made interest free loans aggregating \$587,500 repayable in varying annual instalments commencing in 1981 with the full balance of such loans being repayable in 1988.

5. REAL ESTATE

	Cost	Accumulated Depreciation	Net	1978 Net
Revenue Producing Property:				
Building	\$2,518,484	\$23,239	\$2,495,245	\$2,507,629
Property held for development	154,327		154,327	201,697
	<u>\$2,672,811</u>	<u>\$23,239</u>	<u>\$2,649,572</u>	<u>\$2,709,326</u>

Depreciation on the building is recorded on a 5% fifty-year sinking fund basis, whereby an increasing amount consisting of a fixed annual sum together with interest compounded at a rate of 5% per annum is charged to earnings to depreciate the building over its estimated life.

6. NOTES, MORTGAGES AND ACCOUNTS RECEIVABLE

Notes, mortgages and accounts receivable include the following:

	1979	1978
Loans to directors (note 4)	\$ 587,500	\$ 587,500
Mortgages: principal due within		
one year	146,772	450,678
principal due thereafter	1,001,787	1,013,558
Other accounts	856,599	712,327
Demand notes		1,148,482
	<u>\$2,592,658</u>	<u>\$3,912,545</u>

7. BONDS AND MORTGAGES PAYABLE

Details of bonds and mortgages payable are as follows:

	1979	1978
6½ % First mortgage sinking		
fund bonds due 1985	\$ 339,000	\$ 395,500
7½ % - 8½ % First mortgage loan,		
payable \$12,437 monthly		
including principal and		
interest, due 1997	1,463,550	1,503,104
	<u>\$1,802,550</u>	<u>\$1,898,604</u>

Principal payments on the 6½ % first mortgage sinking fund bonds are \$56,500 annually until maturity.

8. INTEREST, DEPRECIATION, AMORTIZATION AND INCOME TAXES

Expenses include the following:

	1979	1978
Interest	\$227,000	\$ 24,000
Depreciation and amortization		
of leasehold improvements	20,000	25,000
Amortization of goodwill	44,000	
Income tax expense (recovery):		
On operating earnings	461,000	269,000
On equity adjustments	107,000	(24,000)

9. REMUNERATION OF DIRECTORS AND OFFICERS

Aggregate remuneration paid to directors and officers of the Company as defined in The Securities Act (Ontario) was as follows:

	1979	1978
Remuneration of directors and		
senior officers	\$315,248	\$295,125
Remuneration of a director by		
an unconsolidated subsidiary		
of the Company		1,875

10. The comparative figures for 1978 have been restated to conform with the 1979 presentation, with no effect on reported net earnings.



TALCORP ASSOCIATES LIMITED

INTERIM REPORT

SIX MONTHS ENDED JUNE 30, 1979

TALCORP ASSOCIATES

INTERIM REPORT

FOR THE SIX MONTHS

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

CONSOLIDATED STATEMENT OF CHANGES IN INVESTMENTS

MONTHS ENDED JUNE 30, 1979 (UNAUDITED)

	1979	1978 (note 1)
Financial income including fees, trading gains, dividends and rental revenue	\$ 1,575,053	\$ 740,950
Add (deduct) equity in net earnings (loss) of associated and unconsolidated subsidiary companies	203,500	(51,000)
	<u>1,778,553</u>	<u>689,950</u>
Expenses including rental operating expenses of \$253,729 (1978 - \$307,576) and income taxes of \$375,000 (1978 - recovery of \$73,000)	1,152,416	760,038
	<u>626,137</u>	<u>(70,088)</u>
Earnings (loss) before net gain on disposal of investments	626,137	(70,088)
Net gain on disposal of investments (after \$153,000 income taxes; 1978 - \$77,000)	339,391	298,807
	<u>965,528</u>	<u>228,719</u>
Net earnings for the period	965,528	228,719
Retained earnings at beginning of period (note 2)	6,682,073	17,721,602
Dividends	(338,850)	(291,515)
	<u>\$ 7,308,751</u>	<u>\$17,658,806</u>
Retained earnings at end of period		
Earnings (loss) per share:		
Before net gain on disposal of investments	\$.46	\$ (.05)
Net gain on disposal of investments	.25	.23
	<u>\$.71</u>	<u>\$.18</u>
Total for the period		
Weighted average number of common shares outstanding during the period	1,355,550	1,295,621

Source of investment funds:

Earnings (loss) from operations	\$ 626,137	\$ (70,088)
Equity in net earnings (loss) of associated and unconsolidated subsidiary companies net of capital gains tax	152,650	(37,600)
	<u>473,487</u>	<u>(32,488)</u>
Proceeds on disposal of investments	2,297,752	2,383,557
Decrease in cash and short-term deposits	731,951	—
Increase in income taxes payable	296,901	—
Increase in share capital	7,920	6,300
Increase in mortgages payable	—	1,539,851
Decrease in trading securities	—	702,352
Increase in accounts payable and accrued charges	—	30,218
	<u>3,808,011</u>	<u>4,629,790</u>
Deduct:		
Increase in notes, mortgages and accounts receivable	1,603,574	555,661
Increase in trading securities	408,588	—
Dividends paid	338,850	291,515
Miscellaneous (net)	32,165	194,727
Increase in cash and short-term deposits	—	773,282
Decrease in income taxes payable	—	195,232
	<u>2,383,177</u>	<u>2,010,417</u>
Funds used for investments	1,424,834	2,619,373
Investments at beginning of period	12,454,239	16,338,848
Add (deduct):		
Equity in net earnings (loss) of associated and unconsolidated subsidiary companies less dividends received	152,650	(37,600)
Carrying amount of investments disposed of	(1,805,361)	(2,016,268)
Decrease in provision for decline in market value of investment portfolio	—	24,000
	<u>\$12,226,362</u>	<u>\$16,928,353</u>
Investments at end of period		

Notes: 1. The comparative figures for 1978 have been restated to conform with the 1979 presentation, with no effect on reported net earnings.

2. In December 1978, \$10,329,395 was transferred out of retained earnings to share capital and \$2,498,547 of retained earnings was cancelled upon amalgamation with a subsidiary company.

PRESIDENT'S REPORT

TO THE SHAREHOLDERS

Interim Results

Consolidated net earnings for the six months ended June 30, 1979 were \$965,528 (71¢ per share) compared with \$228,719 (18¢ per share) for the same period in 1978.

Net gain on disposal of investments was \$339,391 (25¢ per share) in the six months under review, compared with \$298,807 (23¢ per share) in 1978.

Asset Value

Shareholders' equity at book value was \$18.35 per share at June 30, 1979, compared with \$17.89 at December 31, 1978. The increase in shareholders' equity per share during this period is the net result of the above noted earnings for the six months ended June 30, 1979, less the payment of the Company's semi-annual dividend of 25¢ per share in April 1979.

In the view of your management, the underlying value per share of the Company is slightly in excess of book value.

Barrymore Carpet Inc. (50% owned)

Sales of Barrymore were \$11,500,000 in the first six months of 1979 (\$9,500,000 in 1978) and earnings for the same period were \$406,000 (\$308,000 in 1978).

Recent Events

As recently announced, your Company has agreed to purchase 800,000 common shares of Reichhold Limited (representing approximately 20% of the equity of Reichhold on a fully diluted basis) at \$15.00 per share, for a total of \$12 million.

Reichhold is a leading manufacturer of synthetic resins, agricultural chemicals and chemicals for the oil and gas industry in Canada. It is also a major manufacturer of printing inks and distributor of printing machinery and printing supplies. Through its wholly owned U.S. subsidiary, Woolfolk Chemical Works, Inc., it is engaged in the formulation and distribution of agricultural chemicals throughout the south-eastern United States.

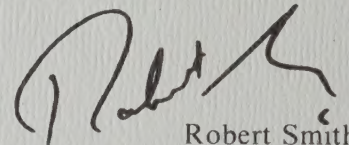
We are very pleased with this purchase which represents a major investment by your Company. Reichhold's historical earnings performance has been above average and it has significant growth potential. For the latest 12

months to June 30, 1979 it had sales of \$252,974,000 and earnings of \$6,214,000 or \$1.94 per common share on a fully diluted basis. Your Company will be appointing two nominees to the Board of Reichhold.

Outlook

After completion of the Reichhold transaction your Company will still be in a very strong financial position and your management is actively seeking one or two additional major long term investments. To provide a measure of diversification we hope that at least one of the new investments will be in the United States.

On behalf of the Board of Directors,



Robert Smith
Chairman and President

August 27, 1979